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THE SETTLEMENTS WITH THE PACIFIC RAILWAYS.

WITH unexpected smoothness and rapidity the settlement of the debts due to the United States from the Pacific railways has been accomplished. Therewith closes a striking chapter in the history of transportation in the United States. The Union and Central Pacific roads, creatures of the government, long its special care, the targets for unnumbered debates and plans and attacks, have severed once for all their relations with the federal authorities, and have become great railway corporations of the usual type. This result has been reached by a process which is simple enough, but which, none the less, would have seemed a few years ago highly improbable to the best-informed observers,—by the payment to the government, or ample guarantee of the payment, of the huge sum of the principal and accumulated interest of its loans of thirty years ago. Dreams of a possible disrupting of the companies, of the formation of a new transcontinental line under government ownership, have vanished. Some record of this concluding stage in the great subsidy operations is here offered, to which, for completeness of statement, even though at the risk of repeating familiar history, is prefixed a sketch of the events which led up to the final settlements.

The Pacific Railway Act of 1862 offered the Union Pacific Railroad Company and the Central Pacific Railroad Company a subsidy consisting of a land grant of about thirty-three million acres and a loan of the credit of the United States. The loan was in the form of government bonds at the rates of sixteen, thirty-two, or forty-eight thousand dollars a mile, according to the nature of the country traversed by the railway. The United States

was to be secured by a first mortgage upon the completed line. Upon these terms, however, the Union Pacific and Central Pacific Railroad Companies were unable to raise capital; and in 1864 Congress doubled the land grant, and contented itself with a second mortgage as security for its advances of bonds. The estimates of the cost of the proposed railroads were pure guess-work; the bond subsidy was of uncertain value, since the principal and interest of the bonds were payable in currency; and, finally, the prospects of the railways after completion were exceedingly doubtful. For these reasons some men of weight in the world of finance persisted to the last in esteeming the Pacific lines hare-brained schemes. The promoters themselves had to pledge their whole fortunes in order to secure the co-operation of capitalists, and more than once were in imminent danger of bankruptcy. The final success of the scheme was due largely to the discovery of an easy means of crossing the Sierras and to the importation of Chinese labor.

The funds required for the building of the Union Pacific and Central Pacific Railroads were raised by the sale of the government bonds and of first mortgage, land, income, and other bonds. The stock that was issued was thrown in as a bonus to the promoters. Its value depended partly upon the earning powers,—actual and prospective,—partly upon the fact that the ownership of the stock carried with it the control of the railroads. That of the Central Pacific, or a majority of it, remained in the hands of the original promoters of the road. That of the Union Pacific, on the other hand, immediately found its way into the open market, and soon became a gambling stock on the New York Stock Exchange. Both stocks ultimately rose to par, and were profitable during the years in which the Union Pacific and Central Pacific Railroads had a monopoly of the transcontinental traffic by rail.

In the years from 1860 to 1880 almost all railway building in the United States was highly speculative. Promoters expected to make a profit out of the construction itself, issuing as many bonds as the market would absorb. The stock was generally thrown in as a bonus to make the bonds more salable. The incorporators of railways also had recourse to construction companies for the purpose of limiting their liabilities and their chances of loss. The construction companies and the methods employed in general for the purpose of tempting capital into railway building unquestionably led to great abuses. They brought about a separation between the interests of the railway builder and manager and those of the persons who had furnished the capital for the building of the railway. And if it be urged that in the operations of the Union Pacific and Central Pacific construction companies — the Credit Mobilier of America for the former, and the Contract and Finance Company for the latter — the rights of the United States as a creditor of the companies were ignored, it should be remembered that, in this respect, the experience of the United States was but the too common experience of railway investors in the period from 1860 to 1880.

Congress in 1864 had enacted that the Pacific railways should pay annually to the government at least 5 per cent. of their net earnings, and that, in addition, the United States should withhold one-half of the sums due to the railways for transportation services rendered. It was hoped that these two sums would offset the payments annually to be made by the government on account of interest on the bonds issued to the railways. But this hope was disappointed from the start. In 1872 Congress attempted to withhold the whole amount annually due from the government to the railways for transportation. But at the same time the railways were allowed to appeal to the Court of Claims; and that tribunal, as well as the

Supreme Court, held that under the acts of 1862 and 1864 there was no authority to withhold more than one-half the sums due for services rendered. The indebtedness of the Pacific railways to the government under these conditions increased year by year. At the same time the roads began to pay dividends, the Central Pacific in 1872 and the Union Pacific in 1875, on stock which represented no investment of capital. In 1873, when the Wilson Committee made its report upon the relations between the Credit Mobilier and the Union Pacific Railroad Company, Congress directed the Attorney-General to bring suit in equity in the name of the United States against the Union Pacific Railroad Company and against all persons who had received stock in the road without paying for the stock in full in money. The theory on which this proceeding rested was that the property of the Pacific roads was held in trust by the companies for the payment to the United States of the subsidy bonds. The relief asked for was that the moneys and property alleged to have been wrongfully diverted from the treasury of the Union Pacific Railroad to the pockets of certain officers and stockholders of the company, be restored to the railroad corporation or to the United States, whichever should in equity be entitled thereto. The Supreme Court, however, held that the bond subsidy created nothing in the nature of a trust, but was an absolute grant without precedent condition. It held that under the acts of 1862 and 1864 the United States was in the position of an ordinary creditor, and that redress for the alleged fraudulent actions could be obtained only in a suit brought by the corporation or one of its shareholders, and not in a suit by the United States. Thus it was settled that the doings of the construction companies—the Credit Mobilier and the Contract and Finance Company—were not matters in which, at law, the government of the United States had any special concern. Yet

it is certain that the alleged fraudulent doings of those companies remained a potent cause of the opposition to measures presented from time to time for the adjustment of the indebtedness of the Pacific railroads.

The decision of the Supreme Court in the *Credit Mobilier* case was delivered in 1878, at the time of the Granger movement and the general ferment of opinion on the railway question. Congress now endeavored to meet the situation by the exercise of its power as the sovereign law-giver. In the Thurman Act of 1878 it was enacted that the whole of the sum annually due from the government on account of services rendered by the Pacific railroads should be withheld. One-half of that sum was to be applied annually on the debt due to the government. The other half, together with 5 per cent. of the net earnings of the roads, was to be invested at compound interest in a sinking fund, which was to consist of United States bonds. In addition, the Union Pacific was to pay into the sinking fund each year \$850,000, and the Central Pacific was to pay \$1,200,000, with the proviso that neither company should pay into the sinking fund more than 25 per cent. of the net earnings.

The sinking fund of the Thurman Act was expected to take care at least of the first mortgage on the Pacific railways and possibly also of the second mortgage, when those two liens should become due in the years 1895-99. But for one reason and another this expectation was completely disappointed. The monopoly of the transcontinental traffic by rail held by the Central Pacific and Union Pacific, and the monopoly of the local traffic held by the Union Pacific, were broken down in 1883 by the almost simultaneous completion of several competitive routes,—the Southern Pacific, the Northern Pacific, the Atchison, Topeka & Santa Fé, and the Chicago, Burlington & Quincy roads. In consequence the net earnings of the Central and Union Pacific fell off to such an extent that the payments

on account of the \$850,000 and \$1,200,000 provisions became inconsiderable. In the second place, the sudden improvement in the credit of the United States after 1879, and the advance in the price of its bonds caused the sinking fund to bear little more than 2 per cent. interest; and at times it lay idle altogether. On the other hand, the United States was paying, year by year, interest at the rate of 6 per cent. on the subsidy bonds which it had issued for the roads; and year by year this accumulating amount was charged to the debt which they must ultimately repay to the government. To this obligation, certain to be presented in troublesome form even though at a date which may have seemed distant, managers of the roads at this time paid apparently no attention. The Thurman Act was allowed to work out its unexpectedly slight results; and the net indebtedness of the roads to the United States, so far from declining, continued to increase year by year.

Meanwhile, the situation was being complicated in another direction,—by the changes in the organization and the ramifications of the railway systems themselves. The Central Pacific Railroad was absorbed by the Southern Pacific Company of Kentucky; and the Union Pacific Railroad developed into the Union Pacific System.

At a very early date the promoters of the Central Pacific entered upon the policy of building to the most populous and most productive parts of California; leasing the lines, when completed, to the Central Pacific Railroad Company. They also built from Goshen, in Southern California, across Arizona, New Mexico, and Texas to New Orleans, where connection was made by steamships with the Atlantic seaboard cities. In 1885 the whole complex of lines was subdivided into two systems,—one comprising the Central Pacific and all lines north of Goshen, the other comprising the southern transcontinental line, or Southern Pacific, and all lines south of Goshen. Both

systems were leased to the Southern Pacific Company of Kentucky, a corporation controlled by the builders of the Central and Southern Pacific lines. Under the lease of 1885 the Southern Pacific Company of Kentucky assumed the payment of the obligations of the Central Pacific as regarded interest on its funded debt and the sums annually due to the United States under the Thurman Act: but it assumed no responsibility for the principal of the Central Pacific indebtedness. It has often been charged that the Southern Pacific of Kentucky systematically diverted traffic from the Central Pacific line to the Southern Pacific, for the purpose of keeping down the net earnings of the former, and so reducing the payments due to the United States. But it is probable that an inquiry into the facts would at any time have led to the conclusion reached in 1894 by Sir Rivers Wilson, the representative of the English shareholders of the Central Pacific, who then reported that there did not appear sufficient grounds to support the charge of unfair diversion of traffic from the Central Pacific. The truth is that in length of haul by rail, in ease of grades, and in freedom from obstruction by snow and ice, the Southern Pacific has very decided advantages over the Central Pacific.

The Union Pacific Railroad Company in 1877 began the policy of acquiring control of auxiliary lines, in order that it might keep pace with the growth of the territory tributary to it and meet the competitive building of other trans-Missouri lines. But not until after the consolidation with the Kansas Pacific and Denver Pacific in 1880 did it pursue vigorously the policy of expansion. In 1881 it met the construction of the Southern Pacific by seeking an outlet to the north-west Pacific coast. Thus it finally acquired the Oregon Short Line & Utah Northern Railway, together with the Oregon Railway and Navigation Company. These lines carried it to important points in the Pacific north-west,—to Butte City, Montana, to Spokane

Falls, Washington, and to Portland, Oregon. From the latter place the Union Pacific operated steamship lines to San Francisco. Somewhat later it pushed its operations into the south-west, obtaining access to Fort Worth, Texas, by means of the Union Pacific, Denver & Gulf Railway. By 1890 the Union Pacific System had come to comprise, in addition to the Union Pacific and Kansas Pacific main lines, some 5,900 miles of auxiliary lines, and had under operation a total of 7,700 miles. This vast system was held together through the Union Pacific Railway Company's ownership of stocks and bonds of the auxiliary lines; for the charter of the Pacific roads had given the companies no power to build new lines directly or to incorporate by consolidation any lines of railway other than those mentioned in the acts of 1862 and 1864.

The policy of acquiring auxiliary lines has been the subject of adverse comment, sometimes of bitter attack, under the mistaken notion that it was a drain upon the resources of the Union Pacific. To persons not conversant with railway operations, it does not readily appear how a branch line which does not pay for itself may yet be a source of profit in providing the main line with traffic hauled long distances at low cost. Then, again, the device of constructive mileage, made use of in dividing the earnings between the branch lines and the parent line, readily lends itself to misunderstanding and misinterpretation. On the other hand, it must be admitted that the terms upon which some of the branch lines were secured were not above criticism. Yet, upon the whole, the policy of expansion was pursued with honesty and wisdom; and among persons competent to judge there is no difference of opinion as to the absolute necessity of auxiliary lines for the Union Pacific main line.

In 1893 the Union Pacific Railway Company passed into the hands of receivers. A general reorganization

committee was at once formed to protect the many interests which had been brought together under the Union Pacific System. It soon became evident that no headway could be made with reorganization until provision should have been made for the claims of the government, which would come due in the years from 1895 to 1899. In January, 1895, the Union Pacific Railway Company offered to refund the government's entire claim, principal and interest, in fifty-year 2 per cent. bonds. The interest on these fifty millions would have yielded to the government each year a sum more than sufficient to meet the annual interest on the United States subsidy bonds, if these bonds, as they matured, had been refunded at a lower rate of interest. In addition, it was proposed to raise by assessment on the Union Pacific Railway Company stock some twenty millions in cash. This sum and the fourteen millions in the sinking fund were to be used in paying off the bonds which had priority over the lien of the United States. Finally, the ultimate payment of the refunded debt was to be secured by sufficient sinking fund provisions. The offer was commonly thought a reasonable one; yet, as public opinion and Congressional tactics stood, it was hopeless to expect its acceptance. Congress adjourned without taking action; and the reorganization committee disbanded in March, 1895.

By this time separate receivers had been appointed for the Union Pacific, Denver & Gulf, for the Denver, Leadville & Gunnison, and for the Oregon Railway and Navigation Company. There was the possibility also of a separate receivership for the Oregon Short Line & Utah Northern Railway. There had been a struggle among the holders of the securities of the various subsidiary companies, each group seeking to put itself in position to form an alliance with some other system, should the Union Pacific System be broken up. The Union Pacific Railway Company therefore was in danger not only of

losing through foreclosure its valuable equities in the various subsidiary companies, but also of being reduced to the position of a trunk line without feeders of its own, dependent for freight upon traffic arrangements made with rival systems.

In January, 1897, still another proposal for settlement came up, and reached at least the stage of a vote in the House of Representatives. On that date, the House rejected, by a vote of 167 to 102, the Powers Bill. That measure proposed to allow the Union Pacific Railway Company to issue fifty-year 4 per cent. first mortgage bonds to the face value of all outstanding first mortgage bonds,—\$54,731,000. The debt due to the government was to be refunded in 2 per cent. fifty-year second mortgage bonds, with a lien on the total property of the company. The original lien of the government had not applied to those portions of the Union Pacific and Kansas Pacific roads which had been built without recourse to the proceeds of the subsidy bonds; that is, it did not cover the terminal properties at Omaha, Council Bluffs, and Kansas City, nor any part of the Kansas Pacific road west of a point three hundred and ninety-four miles west of Kansas City. The Powers Bill also provided for stated annual payments on account of the principal of the proposed second mortgage bonds,—\$365,000 annually for the first ten years, \$550,000 annually for the second ten years, and thereafter \$750,000 a year. The proposal again was not an unreasonable one, and again it was rejected. Before the vote on the bill proper the House rejected also a substitute providing for a commission to settle or compromise the indebtedness of the Pacific railroads; and rejected, too, a substitute for funding at 3 per cent. the debt due to the government. The arguments on these proposals had but little relevancy to the question in hand. They consisted mainly of the repetition of charges, by this time flat and stale, against the Credit

Mobilier, and of similar charges as to the diversion of traffic from the Central Pacific to the Southern Pacific and the diversion of earnings from the Union Pacific to its auxiliary companies. The debate as a whole deserved the comment which a prominent member of the Pacific Railroads Committee applied to his own speech. Most of what he had been saying, he frankly admitted, was foreign to the real question at issue,—the adjustment on a business-like basis of the claims of the government; but he wished to show that Congressmen were under no moral obligation to deal leniently with those who had made immense fortunes out of the bounty of the government and had shamefully abused the confidence and generosity of their predecessors. But the opposition rested not merely on this general unwillingness to any action savoring of accommodation to guilty corporations. It was powerfully strengthened by the strong wish of the Western Congressmen, especially those from California, to force foreclosure under the government mortgage. Foreclosure by the government was desired, in the hope that it would result in one through line, consisting of the Central Pacific and Union Pacific operated as one road, which would break the monopoly of railway transportation in California which had been enjoyed for many years by the owners of the Southern Pacific. For the chance of securing this outcome the House of Representatives did not hesitate to leave the government in a position where the sale of the claim of the United States at a heavy sacrifice might be the alternative to its becoming the owner of the torso of a main line.

Meanwhile, steps had been taken in another direction, and on a different plan for securing some action on the part of the government. Proceedings were instituted to foreclose the first mortgage bonds of the Union Pacific, interest on which had been in default since 1893, and whose lien applied to those parts of the main line subject

to the government's second lien. Under the act of March 3, 1887,* it had been made the duty of the President to direct proceedings for the protection of the interests of the United States, by redemption or by foreclosure provisions. The executive branch of the government, and not Congress, was now to be dealt with, and, indeed, was compelled to show its hand under penalty of letting the entire claim of the United States go by the board. A new reorganization committee had been formed in October, 1895, representing the holders of first mortgage bonds of the Union Pacific and Kansas Pacific divisions; and the Attorney-General (Mr. Harmon) agreed with that committee in January, 1897, immediately after the rejection of the Powers Bill, to bring suit for the foreclosure of the government's lien at the same time that the committee should bring suit for the foreclosure of the first mortgage lien. In consideration of this understanding the reorganization committee guaranteed a minimum bid of \$45,754,000 for the government's claim. The cash value of the sinking fund in the Treasurer's hand was about sixteen and one-half millions, leaving some twenty-nine millions to be raised by the committee. To secure that sum, it would be necessary to sell about thirty-three and one-half millions of the proposed issue of one hundred million new first mortgage 4 per cent. bonds. The interest on those bonds would call for something more than \$1,300,000 a year, or about a hundred thousand dollars more than the Union Pacific Railway Company had been paying in recent years on account of its debt to the government. Reorganizations of bankrupt properties are not ordinarily made on the basis of in-

* This act provided primarily for the appointment of a commission to investigate the books, accounts, and methods of the bond-aided Pacific railroads. It also directed the President to take action to protect the interests of the United States, should any suit be brought for the foreclosure of any lien prior to the government's claim. Finally, it permitted the investment of the sinking fund moneys in the first mortgage bonds of the Pacific railroads. This last provision, however, proved of little value to the railroads.

creased fixed charges; and, considering the disturbed state of affairs at that date (the Treasury was far from prosperous, and the Venezuela episode was not out of the way), the offer of forty-five and three-quarters millions would seem to have been not illiberal. At any rate, "rights" to participate in the undertaking of the syndicate formed to raise the money required under the guaranteed bid were being offered in the early part of 1897 at a discount of $2\frac{1}{2}$ per cent.

Some of the decrees rendered in the foreclosure suits proved unsatisfactory to the government. It was adjudged that a certain Omaha bridge mortgage for \$1,200,000 was a lien prior to the claim of the United States; and it was ordered that moneys and assets accruing in the hands of the receivers should not be reserved to meet any deficiency judgment obtained by the government. When the reorganization committee learned that the government for these reasons was preparing papers for an appeal, the committee raised its guaranteed bid to fifty millions. The Attorney-General (Mr. McKenna, under the new administration) in October stated that the increase removed the objections to the decrees so far as the money contentions were concerned. In all else the decrees were satisfactory; and the government was willing that the sale should proceed. But there was clamor against what was styled an attempt to rob the government; and it was stated in the press that, if time were given, opposition syndicates would be formed to outbid the reorganization committee. These charges proved the more embarrassing to the administration because certain Wall Street rumors gave them some measure of plausibility. It was alleged that support had been secured for a syndicate which was ready to raise seventy million dollars. These allegations grew stronger as the day fixed for the foreclosure sale approached; and on October 25 the Attorney-General notified the committee that the government had applied

to the court to have the sale postponed from November 1 to December 15. On the latter date Congress would be in session, and able, if it pleased, to take action. The committee, unwilling to risk further intervention by Congress, raised the guaranteed minimum bid on the Union Pacific line to the full amount of the government claim, principal and interest,—more than fifty-eight millions in all. The previous bids had been for both the Union Pacific and Kansas Pacific lines; but, the latter not being essential for the proposed reorganization, the bid as to it was withdrawn. For the Union Pacific alone the offer was eight millions more than the preceding offer for both lines taken together.

Thus the United States secured from the Union Pacific the unabated amount of its claim in hard cash. There were abundant circumstances that might have been adduced in justification of a less exacting bargain. The prolonged payment of interest at 6 per cent. by the government on its subsidy bonds greatly swelled the amount of the accumulating debt; yet in the course of the thirty years the current rate had fallen much lower, and the rate for the government itself to one-half of 6 per cent. On the investment which the government had compelled the company to make in the sinking fund of the Thurman Act, hardly 2 per cent. had been earned for the beneficiary. Quite apart from any such considerations of equity, it is not to be doubted that, having regard to the condition of the railway itself and to the general business situation, any of the proposals made in 1895–97 would have been found acceptable by a private creditor. The first offer from the reorganization committee, acceded to by the government in 1897, of 45.7 millions, was thought at the time to be an excellent bargain for the United States. That enough was successively added to meet finally the full claim, was due in some degree to the general revival of activity and the

better prospects of all railway properties; but even more, probably, to the fact that the reorganization committee had gone too far to be able to retrace its steps. For various reasons it was anxious to avoid the possibility that Congress, yielding to the pressure which had defeated the Powers Bill, should overthrow the proposed settlement. The failure to carry the reorganization through would have had a depressing effect in the financial world, undermining the confidence just being re-established. This, in turn, would have affected adversely many other large affairs and interests in which the individuals taking part in the reorganization were involved. Moreover, the committee had made heavy engagements and contracts, from which it could not retreat without great confusion, if not loss. A syndicate had been formed to advance on thirty days' notice some forty-four million dollars. Comprehensive plans had been made to recover the lines lost to the old Union Pacific System, among them an agreement to purchase the Oregon Short Line stocks, held by the firm of J. P. Morgan under an old trust indenture of 1891. Virtually, there was nothing to be done except to dispose of the government as an ugly partner by paying the full amount of its claim,—\$27,236,512 principal and \$31,211,712 interest. The formal end of this operation came on November 6, 1897, when the sale of the Union Pacific main line to the reorganization committee was confirmed.

The Kansas Pacific had been left out of the arrangement when the Union Pacific bids were raised. The disposal of this line dragged on, and, indeed, has not yet been completed. On February 9, 1898, the Secretary of the Treasury made a move for foreclosure by issuing a warrant for \$7,515,255 in favor of the Treasurer of the United States, to be used in the purchase of the first mortgages on the parts of the Kansas Pacific covered by the government lien, unless a satisfactory agreement

should be reached for the settlement of the government's claim. Three days later the reorganization committee guaranteed the government the amount of the principal of its debt (\$6,300,000), and the sale was allowed to proceed. On the 16th of February the property was sold, the United States receiving nothing for its claim on account of interest, amounting to \$6,627,000.*

The Union Pacific being disposed of, the settlement with the Central Pacific was made with comparative ease. The possibility of a union of the two lines as a government road was gone, and there was no ground for further opposition in Congress to the readjustment of the Central Pacific's debt. The Deficiency Appropriation Act of July, 1898, appointed the Secretary of the Treasury, the Secretary of the Interior, and the Attorney-General commissioners to effect a settlement between the United States and this railway. Under the agreement, approved by the President on February 15, 1899, the government's claim, amounting to \$27,855,680 on account of principal and \$30,957,035 on account of unreimbursed interest, was disposed of in full, by being refunded in twenty equal notes, payable, respectively, on or before the expiration of each successive six months for ten years. The notes bear interest at 3 per cent.; and, if default be made in any payment of principal or interest, all of the notes immediately become due and payable. The payment of the principal and interest is secured to the government by the deposit in its hands of \$58,820,000 (out of a total issue of one hundred millions) first refunding 4 per cent. gold bonds issued by the Central Pacific Railroad Company or

*The Department of Justice has instituted proceedings, however, against the reorganized Union Pacific Company for \$6,588,000 with interest. There had been left over in the hands of the receivers of the old corporation some assets not covered by any specific lien, and therefore available for payment of the general obligations of the company. The value of these assets has been estimated to be about four million dollars. The total amount of claims presented against them, among which the government demand figures, is close on sixty millions.

its successor in the ownership of the property covered by the bonds. These bonds are a first charge on all the property of the company; and the issue has been used, in part, to retire the old first mortgage bonds whose lien was prior to that of the United States. They affect not only the subsidized line, but all the lines and the equipment and terminals of the company owned at the time of the approval of the agreement. The second mortgage formerly held by the United States, it will be remembered, had not covered the valuable terminal properties at Oakland and San Francisco. Substantially, the government claim, for principal and interest taken together, is extended at 3 per cent., with provision for payment by instalments in the course of ten years and with security certainly more ample than it had been before the settlement. The terms are but little more favorable to the government than those of the several proposals made to it of late years; and they are distinctly less favorable than in the case of the Union Pacific, where it got its cash once for all.

Some minor items of the bond subsidy operations of thirty years ago may be referred to. The Sioux City & Pacific Railroad, running from Missouri Valley in Iowa to Sioux City, and now forming a branch of the Chicago & North-western System, received a bond subsidy; and the United States has a second mortgage of \$1,628,300, not including interest. It does not appear what action has been taken regarding this line. The central branch of the Union Pacific, running from Atchison to Water-ville in Kansas, was similarly subject to a claim for \$1,600,000. It was long under lease to the Missouri Pacific System, and in 1898 it was sold in order to satisfy a lien having priority over the government lien. Apparently, no steps were taken to enforce the government's claim; and the line is now owned and operated by the Missouri Pacific.

For the government the whole outcome has been finan-

cially not less than brilliant. Not only the principal of the debt, but the accumulated mass of interest payments, has been recouped by the subsidized railways,—a result, as has already been said, which would have been thought a few years ago virtually impossible. It may be a question whether the precise mode in which this success was achieved, in the case of the Union Pacific, deserves unqualified commendation; yet it may also be urged that the representatives of the government had no other course than to press its claim to the end without discount. For the community it is certainly a gain that the Pacific railways question disappears from the political field, and that no more is to be heard of the rumors and charges—half true and half false—as to intrigue, corruption, blackmail, demagogism. For the railways, too, it is no less a gain that they are no longer to be trammelled by the constant friction in Congress and the uncertainty as to their financial basis. As to the project of creating a government-owned competitive transcontinental route out of the subsidized lines, that, too, is well out of the way. Whether or no public ownership be thought likely to yield a balance of gain in the United States,—and few sober thinkers would regard this as one of the good moves for the visible future,—the plan of such a competitive trunk line offered all the evils and few of the gains of public management. The peculiar situation on the Pacific coast, and especially in California, made the project naturally a tempting one for that part of the country; but this remedy was both drastic and unpromising, and the unfortunate thing is that no remedy at once safe and promising is in sight. Taking the general railway situation in the United States as it stands, the settlements with the subsidized railways are to be welcomed and approved: nothing is made worse, and some things are made better.

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